

PERAC AUDIT REPORT



Taunton Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 10-088-16



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

HENRY G. BRAUER | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO


November 30, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Taunton Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2001 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and Mary Dundas who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Taunton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

1. **Cash Reconciliation** – The retirement system has five (5) checks outstanding for more than six months. These checks must be investigated.

Recommendation: Outstanding checks older than six months should be investigated and reissued or cancelled.

Board Response:

The Board is working with the City Treasurer to resolve any outstanding checks. Recently, the five (5) checks were voided and reissued to the appropriate payees who were sent a notice to cash these checks.

2. **Expenses** - Some expenses are being misclassified. We found insurance, service contracts, and consultant fee expenses charged to administrative expense.

Recommendation: We suggest a review of the chart of accounts and a determination of which of the System's standard accounts belong in which accounts.

Board Response:

During the 4-year audit period from 2001 thru 2004, a correction was already made to properly classify insurance (fiduciary liability insurance), service contracts (Xerox copier), and consultant fees (actuarial study expenses) to the appropriate accounts. This took place during 2003 when the TACS accounting software was implemented.

3. **Membership** – The ending balance from one year does not agree with the beginning balance for the subsequent year on the membership exhibit in the Annual Statement. In addition, the total membership number on the membership exhibit in another year on the Annual Statement is not correct.

Recommendation: The Retirement System should total and cross-total each balance on the membership exhibits. In addition, the Retirement System should check each Annual Statement to ensure that ending balances from one year coincide with beginning balances for subsequent years.

Board Response:

There were numerous problems with the membership schedule in the DataNational software programs that led to some manual calculations that were not cross-referenced correctly.

Recently, the Board has switched to TACS software and believes the TACS programs will assist the staff to correctly calculate the membership schedule.

4. **Members' Contributions:** The Board is not currently receiving adequate information with which to ascertain the accuracy of members' deductions. The City Treasurer has refused the Board's requests for payroll information necessary for ensuring the accuracy of members'

Taunton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

deductions. The lack of this information has resulted in the Board issuing refunds for deductions that were erroneously withheld from employees' paychecks and calls into question the accuracy of retirement calculations. This issue also inhibited the examination conducted by this agency under G.L. c. 32, § 18(1A) and § 21.

Recommendation: The Treasurer and other payroll personnel must comply with the Board's requests for information as provided for in G.L. c. 32, § 18(1A), which says in part "The Treasurer or other disbursing officer in charge of payroll in any governmental unit or agency to which a system pertains, upon request from the board or the commission shall submit such written information as shall be required by the provisions of section one to twenty eight, inclusive, or by the rules and regulations of the board or commission consistent with the law."

And § 20(5), which states that "The head of any department upon request from the board shall promptly furnish it with such information as shall be required to effectuate the provisions of sections one to twenty- eight inclusive." Additionally, unit Treasurers and other disbursing officers in charge of payroll must certify to the Board that deductions were taken in accordance with the provisions of G.L. c. 32, § 18(1A) and § 24(2).

Board Response:

This issue was resolved due to the intervention of the PERAC audit team and the Treasurer did finally supply a printout of a weekly payroll report so that regular compensation and appropriate deductions could be audited. The Treasurer has since complied with requests for all information.

- 5. Record Maintenance:** During this audit, the auditors found years of retiree payroll registers stored on a counter in the reception area of the Treasurer's office. These registers, which contained retiree's names, Social Security numbers, and pension data, were readily accessible to anyone entering that office.

Recommendation: The Treasurer must maintain Retirement Board records in a manner that ensures the security of members' identities and the confidentiality of certain information. The Board must verify that such information is properly maintained in accordance with its direction.

Board Response:

After intervention of the PERAC audit team, the records in question were moved to a concealed storage location. The Treasurer has been notified that all retirement related reports under the care of their office must be properly maintained and stored.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken on all findings.

Taunton Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2004	2003	2002	2001
Cash	\$ 2,677,017.18	\$ 2,185,685.47	\$ 2,825,522.14	\$ 2,929,238.57
Short Term Investments	\$ -	\$ 493,704.72	\$ -	\$ -
Fixed Income Securities (at book value)	\$ 18,134,698.32	\$ 17,006,314.29	\$ 22,194,783.13	\$ 19,945,069.62
Equities	\$ 69,459,587.29	\$ 60,833,268.70	\$ 41,324,743.76	\$ 46,234,099.31
Pooled Short Term Funds	\$ -	\$ -	\$ -	\$ -
Pooled Domestic Equity Funds	\$ -	\$ -	\$ -	\$ -
Pooled International Equity Funds	\$ 18,068,312.10	\$ 15,005,024.02	\$ 8,281,284.50	\$ 9,823,046.26
Pooled Global Equity Funds	\$ -	\$ -	\$ -	\$ -
Pooled Domestic Fixed Income Funds	\$ -	\$ -	\$ -	\$ -
Pooled International Fixed Income Funds	\$ -	\$ -	\$ -	\$ -
Pooled Global Fixed Income Funds	\$ 26,268,783.14	\$ 25,066,396.68	\$ 26,159,361.27	\$ 24,156,079.29
Pooled Alternative Investment Funds	\$ 1,409,805.65	\$ 1,296,986.00	\$ 1,363,824.00	\$ 2,063,656.00
Pooled Real Estate Funds	\$ 7,757,389.49	\$ 7,888,313.00	\$ 6,170,020.70	\$ 6,887,717.08
Pooled Domestic Balanced Funds	\$ -	\$ -	\$ -	\$ -
Pooled International Balanced Funds	\$ -	\$ -	\$ -	\$ -
PRIT Cash Fund	\$ -	\$ -	\$ -	\$ -
PRIT Core Fund	\$ -	\$ -	\$ -	\$ -
Interest Due and Accrued	\$ 254,860.22	\$ 238,522.76	\$ 297,746.16	\$ 307,830.31
Accounts Receivable	\$ 6,640,442.23	\$ 4,815,668.34	\$ 6,496,028.37	\$ 6,041,997.60
Accounts Payable	\$ (170,272.83)	\$ (267,222.61)	\$ (90,759.82)	\$ (144,022.33)
TOTAL	\$ 150,500,622.79	\$ 134,562,661.37	\$ 115,022,554.21	\$ 118,244,711.71
FUND BALANCES				
Annuity Savings Fund	\$ 41,007,017.85	\$ 40,018,893.66	\$ 37,914,821.60	\$ 35,893,859.60
Annuity Reserve Fund	\$ 12,773,541.47	\$ 11,099,262.57	\$ 10,607,567.61	\$ 9,433,788.42
Pension Fund	\$ 17,313,526.51	\$ 18,104,274.52	\$ 21,026,247.84	\$ 20,614,238.93
Military Service Fund	\$ 10,381.17	\$ 2,396.03	\$ 1,710.97	\$ 1,687.35
Expense Fund	\$ -	\$ -	\$ -	\$ -
Pension Reserve Fund	\$ 79,396,155.79	\$ 65,337,834.59	\$ 45,472,206.19	\$ 52,301,137.41
TOTAL	\$ 150,500,622.79	\$ 134,562,661.37	\$ 115,022,554.21	\$ 118,244,711.71

Taunton Retirement System
STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$33,028,140	\$9,083,475	\$20,907,835	\$1,656	\$0	\$53,976,446	\$116,997,551
Receipts	4,605,296	274,802	8,610,509	31	887,515	(1,674,308)	12,703,847
Interfund Transfers	(1,298,534)	1,304,729	(5,194)	0	0	(1,000)	(0)
Disbursements	(441,042)	(1,229,218)	(8,898,911)	0	(887,515)	0	(11,456,686)
Ending Balance (2001)	35,893,860	9,433,788	20,614,239	1,687	0	52,301,137	118,244,712
Receipts	4,696,230	287,357	9,712,865	24	947,185	(6,824,216)	8,819,446
Interfund Transfers	(2,146,633)	2,161,951	(10,603)	0	0	(4,715)	0
Disbursements	(528,635)	(1,275,529)	(9,290,254)	0	(947,185)	0	(12,041,603)
Ending Balance (2002)	37,914,822	10,607,568	21,026,248	1,711	0	45,472,206	115,022,554
Receipts	4,388,198	316,286	7,087,852	685	993,231	19,867,763	32,654,014
Interfund Transfers	(1,511,005)	1,513,140	0	0	0	(2,134)	(0)
Disbursements	(773,121)	(1,337,730)	(10,009,825)	0	(993,231)	0	(13,113,906)
Ending Balance (2003)	40,018,894	11,099,263	18,104,275	2,396	0	65,337,835	134,562,661
Receipts	4,466,684	346,115	9,925,917	7,985	1,180,181	14,060,115	29,986,999
Interfund Transfers	(2,771,380)	2,793,682	(20,508)	0	0	(1,794)	0
Disbursements	(707,181)	(1,465,519)	(10,696,157)	0	(1,180,181)	0	(14,049,037)
Ending Balance (2004)	<u>\$41,007,018</u>	<u>\$12,773,541</u>	<u>\$17,313,527</u>	<u>\$10,381</u>	<u>\$0</u>	<u>\$79,396,156</u>	<u>\$150,500,623</u>

Taunton Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
Annuity Savings Fund:				
Members Deductions	\$3,825,955	\$3,816,204	\$3,948,980	\$3,647,257
Transfers from other Systems	223,531	43,017	97,231	250,637
Member Make Up Payments and Redeposits	91,589	111,891	143,865	95,843
Member Payments from Rollovers	96,543	47,829	15,281	
Investment Income Credited to Member Accounts	229,066	369,257	490,872	611,559
Sub Total	<u>4,466,684</u>	<u>4,388,198</u>	<u>4,696,230</u>	<u>4,605,296</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>346,115</u>	<u>316,286</u>	<u>287,357</u>	<u>274,802</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	257,195	237,337	232,223	226,057
Received from Commonwealth for COLA and Survivor Benefits	772,245	190,674	1,103,554	368,280
Pension Fund Appropriation	8,896,477	6,659,840	8,377,088	8,016,173
Sub Total	<u>9,925,917</u>	<u>7,087,852</u>	<u>9,712,866</u>	<u>8,610,509</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	7,971	668	0	0
Investment Income Credited Military Service Fund	14	17	24	31
Sub Total	<u>7,985</u>	<u>685</u>	<u>24</u>	<u>31</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	1,180,181	993,231	947,185	887,515
Sub Total	<u>1,180,181</u>	<u>993,231</u>	<u>947,185</u>	<u>887,515</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	22,326	16,918	24,526	19,240
Pension Reserve Appropriation	4,153	4,153	4,153	4,153
Interest Not Refunded	7,714	6,295	4,516	3,938
Excess Investment Income	14,025,922	19,840,397	(6,857,411)	(1,701,639)
Sub Total	<u>14,060,115</u>	<u>19,867,763</u>	<u>(6,824,216)</u>	<u>(1,674,308)</u>
TOTAL RECEIPTS	<u>\$29,986,999</u>	<u>\$32,654,014</u>	<u>\$8,819,446</u>	<u>\$12,703,847</u>

Taunton Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2004	2003	2002	2001
Refunds to Members	\$448,760	\$294,915	\$191,046	\$185,113
Transfers to other Systems	<u>258,421</u>	<u>478,206</u>	<u>337,589</u>	<u>255,929</u>
Sub Total	<u>707,181</u>	<u>773,121</u>	<u>528,635</u>	<u>441,042</u>
Annuity Reserve Fund:				
Annuities Paid	1,443,846	1,320,501	1,209,366	1,136,162
Option B Refunds	<u>21,673</u>	<u>17,229</u>	<u>66,163</u>	<u>93,055</u>
Sub Total	<u>1,465,519</u>	<u>1,337,730</u>	<u>1,275,529</u>	<u>1,229,218</u>
Pension Fund:				
Pensions Paid	0	0	0	0
Regular Pension Payments	7,136,961	6,564,745	5,967,899	5,598,747
Survivorship Payments	555,851	512,418	477,902	430,297
Ordinary Disability Payments	144,597	140,840	163,250	153,092
Accidental Disability Payments	1,691,134	1,593,773	1,472,979	1,467,184
Accidental Death Payments	264,068	254,710	233,066	245,114
Section 101 Benefits	71,411	73,315	72,458	66,230
3 (8) (c) Reimbursements to Other Systems	225,073	218,785	201,337	191,432
State Reimbursable COLA's Paid	564,070	604,378	651,611	696,798
Chapter 389 Beneficiary Increase Paid	<u>42,993</u>	<u>46,863</u>	<u>49,751</u>	<u>50,017</u>
Sub Total	<u>10,696,157</u>	<u>10,009,825</u>	<u>9,290,254</u>	<u>8,898,911</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	15,000	15,000	9,750	9,000
Salaries	116,215	115,274	112,138	103,679
Legal Expenses	33,936	16,223	15,916	18,679
Medical Expenses	0	0	0	0
Travel Expenses	3,871	12,007	25,201	13,678
Fiduciary Insurance	9,498	5,007	0	0
Service Contracts	36,219	33,029	37	0
Administrative Expenses	21,686	13,748	39,110	21,725
Furniture and Equipment	6,083	8,438	213	0
Management Fees	829,771	671,626	658,215	657,534
Custodial Fees	40,430	38,941	47,605	30,220
Consultant Fees	<u>67,472</u>	<u>63,936</u>	<u>39,000</u>	<u>33,000</u>
Sub Total	<u>1,180,181</u>	<u>993,231</u>	<u>947,185</u>	<u>887,515</u>
TOTAL DISBURSEMENTS	<u>\$14,049,037</u>	<u>\$13,113,906</u>	<u>\$12,041,603</u>	<u>\$11,456,686</u>

Taunton Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
Investment Income Received From:				
Cash	\$ 39,247	43,699	\$61,278	\$102,043
Short Term Investments	\$ -	-	-	-
Fixed Income	\$ 817,279	1,124,092	1,191,126	1,256,135
Equities	\$ 1,235,540	673,962	578,658	516,094
Pooled or Mutual Funds	\$ 1,805,334	1,647,078	2,290,968	2,103,951
Commission Recapture	\$ 21,143	17,869	14,977	18,861
TOTAL INVESTMENT INCOME	\$ 3,918,543	3,506,701	4,137,006	3,997,084
Plus:				
Increase in Amortization of Fixed Income Securities	\$ -	-	-	-
Realized Gains	\$ 1,535,553	2,256,088	1,187,730	1,243,872
Unrealized Gains	\$ 15,984,547	19,246,531	4,189,885	6,996,969
Interest Due and Accrued on Fixed Income Securities - Current Year	\$ 254,860	238,523	297,746	307,830
Sub Total	\$ 17,774,960	21,741,142	5,675,361	8,548,672
Less:				
Decrease in Amortization of Fixed Income Securities	\$ -	-	-	-
Paid Accrued Interest on Fixed Income Securities	\$ (38,883)	(71,997)	(34,109)	(25,860)
Realized Loss	\$ (1,132,859)	(1,742,597)	(2,872,911)	(2,915,681)
Unrealized Loss	\$ (4,501,940)	(1,616,316)	(11,729,490)	(9,189,042)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	\$ (238,523)	(297,746)	(307,830)	(342,904)
Sub Total	\$ (5,912,205)	(3,728,656)	(14,944,340)	(12,473,487)
NET INVESTMENT INCOME	\$ 15,781,299	21,519,187	(5,131,973)	72,269
Income Required:				
Annuity Savings Fund	\$ 229,066	369,257	490,872	611,559
Annuity Reserve Fund	\$ 346,115	316,286	287,357	274,802
Military Service Fund	\$ 14	17	24	31
Expense Fund	\$ 1,180,181	993,231	947,185	887,515
TOTAL INCOME REQUIRED	\$ 1,755,376	1,678,790	1,725,439	1,773,908
Net Investment Income	\$ 15,781,299	21,519,187	(5,131,973)	72,269
Less: Total Income Required	\$ 1,755,376	1,678,790	1,725,439	1,773,908
EXCESS INCOME TO THE PENSION RESERVE FUND	\$ 14,025,922	19,840,397	(\$6,857,411)	(\$1,701,639)

TAUNTON RETIREMENT SYSTEM

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,677,017	1.86%	100
Short Term	0	0.00%	100
Fixed Income	18,134,698	12.61%	40 - 80
Equities	69,459,587	48.31%	40
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	0	0.00%	
Pooled International Equity Funds	18,068,312	12.57%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	0	0.00%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	26,268,783	18.27%	
Pooled Alternative Investment Funds	1,409,806	0.98%	
Pooled Real Estate Funds	7,757,389	5.40%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	0	0.00%	100
GRAND TOTALS	<u>\$143,775,593</u>	<u>100.00%</u>	

For the year ending December 31, 2004 , the rate of return for the investments of the Taunton Retirement System was 12.19%. For the five year period ending December 31, 2004 , the rate of return for the investments of the Retirement System averaged 6.00% For the twenty-year period ending December 31, 2004 , since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Taunton Retirement System was 11.35%.

Taunton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

The Taunton Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

January 7, 2000

16.08 In accordance with PERAC Investment guideline 99-3, the Taunton Retirement Board may invest in Boston Millennia Partners II, L.P. The Board is an investor in Boston Millennia Partners I and has submitted the required documentation in support of this request.

September 24, 1998

19.01(7)(a) Boards shall establish specifications and criteria for selection including:

- (6) the range of fees that are considered tolerable, provided, however, that in no event shall a board retain a qualified investment manager whose fee is based on a percentage of committed capital, provided, however, that such a fee may be paid for one year after the partnership commences operations, and provided further, that such a fee is paid by all investors;
- (6a) the Board, however, may retain Boston Millennia Partners and pay compensation according to the fee schedule submitted to PERAC provided that such a fee is paid by all investors.

May 14, 1998

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of the investment, shall be considered a separate asset class.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

Taunton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2004

May 14, 1998 (continued)

20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

June 20, 1997

20.08(e) Enrollment in the Securities Lending Program offered by Bankers Trust Company for the Allmerica Select International Equity Fund provided that the lending of securities is limited to brokers, dealers, and financial institutions and that the loan is collateralized by cash or United States Government securities according to applicable regulatory requirements.

840 CMR 21.00: Prohibited Investments:

(3) Futures Contracts other than as follows:

May 30, 1996

16.02(3) The Board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the Board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million, and
- (b) 0.6% of the value of the fund in excess of \$5 million.

March 24, 1994

20.04 All investments shall consist of recognized quality marketable securities issued by:

- (1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

Taunton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2004

September 21, 1992

- 16.02(4) The Board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

December 21, 1989

Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

- (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the Board, the Board shall consult with PERAC to determine the appropriate course of action, and
- (b) such trustees or general partners retain authority in the decision making process, and
- (c) Should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Taunton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Taunton Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

5/18/93

Regulation approved providing for pro-rating of creditable service of employees who receive workers' compensation payments for partial incapacity and partial regular compensation simultaneously.

8/28/89

Regulations approved pertaining to board staff, meetings, membership, creditable service, make-up payments, etc., as follows:

- Board staff: Executive Secretary, Senior Clerk;
- Salaries and Benefits as determined by vote of the Board;
- Hiring as determined by vote of the Board;
- Board meetings to be held on the last Friday of each month at 12 noon;
- Membership/Eligibility Requirements
- all full-time permanent employees must be members;
- employees under age 65 employed 20 or more hours per week are allowed membership in the retirement system;
- Federal Grant employees working at least 20 hours per week are considered members;
- CETA employees allowed membership if they meet the eligibility requirements;

10/7/02

PERAC approved the Taunton Retirement Board's policy related to authorization for travel and travel related expenses. Copies of this policy are available at the office of the Taunton Retirement Board.

Creditable Service

Credit will be granted on the basis of one year of credit for each year of service with the exception of seasonal employees who receive one year of credit for actual full-time service of no less than 7 months during any calendar year and elected officials are entitled to a full year of creditable service for the period served during his/her last calendar year as an elected official;

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2004

Creditable Service

Credit will be granted on the basis of one year of credit for each year of service with the exception of seasonal employees who receive one year of credit for actual full-time service of no less than 7 months during any calendar year and elected officials are entitled to a full year of creditable service for the period served during his/her last calendar year as an elected official;

- Full time employees will receive full-credit except in instances where full-time employees also had part-time service. Part-time service will then be prorated as it relates to the full-time position;
- Part-time employees will receive full credit provided they have not been a full-time/part-time employee as stated above;
- 5 year maximum credit allowed for reserve or permanent intermittent police officers or reserve fire fighters regardless of whether they become full-time members of the department and only if they gain employment in a qualified position becoming eligible for membership;
- 5 years maximum credit will be allowed to permanent intermittent or call fire fighters only if they are later appointed as permanent members of the department;

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member:	Ann Marie Hebert	Term Expires	
Appointed Member:	Raymond Dumont	Term Expires:	Expired
Appointed Member	Shauna McCarthy	Term Expires	Indefinite
Elected Member:	Peter Corr	Term Expires:	12/31/07
Elected Member:	Richard Avila	Term Expires:	11/30/05
Appointed Member:	A. Joan Ventura	Term Expires:	1/27/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$1,000,000 Employee Dishonesty
Ex officio Member:)	\$50,000,000 Fiduciary Liability
Elected Member:)	MACRS
Appointed Member:)	
Staff Employee:)	

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2004**.

The actuarial liability for active members was	\$105,849,331
The actuarial liability for retired members was	<u>96,184,649</u>
The total actuarial liability was	202,033,980
System assets as of that date were	<u>134,562,661</u>
The unfunded actuarial liability was	<u>\$67,471,319</u>
The ratio of system's assets to total actuarial liability was	66.6%
As of that date the total covered employee payroll was	\$44,752,109

The normal cost for employees on that date was 8.06% of payroll

The normal cost for the employer was 5.13% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 3.00% phasing up to an ultimate rate of 4.75%

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 134,562,661	\$ 202,033,980	\$ 67,471,319	66.6%	\$ 44,752,109	150.8%
1/1/2003	\$ 115,022,554	\$ 191,993,754	\$ 76,971,200	59.9%	\$ 46,332,199	166.1%
1/1/2002	\$ 118,245,712	\$ 184,646,872	\$ 66,401,160	64.0%	\$ 45,648,214	145.5%
1/1/2000	\$ 111,164,402	\$ 158,207,568	\$ 47,043,166	70.3%	\$ 39,650,550	118.6%
1/1/1998	\$ 85,807,264	\$ 135,654,406	\$ 49,847,142	63.3%	\$ 36,254,484	137.5%

Taunton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	27	37	21	21	14	31	29	38	29	47
Ordinary Disability	0	3	1	0	1	0	0	1	0	3
Survivors of Active Members	2	2	2	1	1	0	3	4	9	2
Accidental Disability	3	4	1	3	4	2	2	3	2	5
Total Retirements	32	46	25	25	20	33	34	46	40	57
Total Retirees, Beneficiaries and Survivors	602	630	643	650	643	658	668	682	676	712
Total Active Members	922	941	1,002	1,039	1,066	1,066	1,148	1,147	1,102	1,102
Pension Payments										
Superannuation	\$3,353,690	\$3,613,686	\$3,979,218	\$4,124,947	\$4,454,186	\$5,150,772	\$5,598,747	\$5,967,899	\$6,564,745	\$7,137,961
Survivor/Beneficiary Payments	246,420	263,447	296,911	274,120	315,016	356,959	430,297	477,902	512,418	555,851
Ordinary Disability	108,483	93,708	116,458	130,357	135,546	164,217	153,092	163,250	140,840	144,597
Accidental Disability	1,035,770	1,170,772	1,207,520	1,250,547	1,269,796	1,368,207	1,467,184	1,472,979	1,593,773	1,691,134
Other	1,140,778	1,259,039	1,361,958	1,328,272	1,310,441	1,284,933	1,249,590	1,137,661	1,198,050	1,167,615
Total Payments for Year	\$5,885,141	\$3,979,218	\$6,962,065	\$7,108,243	\$7,484,985	\$8,325,088	\$8,898,911	\$9,219,690	\$10,009,825	\$10,697,157

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